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FINANCIAL DIGEST

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CONSUMERS KEPT THE ECONOMY AFLOAT

Release of the fourth quarter's data on the economy confirms the view expressed earlier that 1979 was a year of slowdown. After rising at an annual rate of 1.1 percent in the first quarter, the real gross national product fell by 2.3 percent in the second. The increase of 3.1 percent in the third quarter and 1.4 percent in the fourth barely made up for the second quarter's decline: In the last three quarters of 1979 the real GNP averaged $1,431.3 billion—virtually unchanged from the $1,430.6 billion of the first quarter. Year over year, fourth-quarter 1979's real GNP was up only 0.8 percent.

This is not to imply that the fourth quarter's economic numbers did not contain some surprises. For one thing, there was a surge in consumer spending. Personal consumption expenditures jumped by $51.8 billion, or 13½ percent at annual rates. This was half again as fast as the rise in the total gross national product. Most of the surge appears to have occurred in consumer spending for softgoods, which soared at an annual rate of 17½ percent. By contrast, outlays for hardgoods rose at a meager 3.9 percent annual rate. Since prices of softgoods rose twice as fast in 1979 as prices for hardgoods, it would seem that inflation-hedge buying remains a factor in consumer spending decisions.

Because consumer spending was stronger than expected, business inventory accumulation was less than anticipated. The rate of stockpiling in the fourth quarter, $6.4 billion, was down significantly from the third quarter's $14.5 billion and was only one-fifth of the 33½ billion pace of inventory accumulation reported in the second quarter. This would seem to suggest that, in most lines, businessmen are succeeding in keeping inventories low, relative to sales. Business spending on new plants and equipment contained no surprises, rising only moderately, as expected.

The other major contributor to the increase in the fourth quarter's gross national product was government on all levels. Federal government spending shot up at a 34½ percent annual rate, according to the Commerce Department's preliminary calculations. Defense spending, scheduled to rise rapidly in the future, is already rising swiftly, since it jumped at a 21.3 percent clip in the fourth quarter. However, nondefense outlays jumped by 63 percent at annual rates, making this component the fastest rising in the GNP accounts.

LITTLE EFFECT FROM GRAIN EMBARGO

When the Carter Administration embargoed two thirds of U.S. agricultural exports to the Soviet Union, many warned of irreparable damage to our economy in the form of an increased 1980 external trade deficit and a significant cut in income to American farmers. Subsequently, the Administration's announcement of plans to counter the impact of lost sales raised further criticism. Concerns were voiced regarding a widened federal budget deficit and the prospect of higher interest rates. Although the final effects of the embargo and associated domestic measures cannot be assessed at this time, a close examination of the facts may suggest some conclusions.

Trade: The suspension of agricultural exports to the Soviet Union—originally valued at about $2.25 billion—was expected to dampen the trade outlook. To date, however, several developments have brightened the picture. Poor harvests in various countries have increased demand for imported grains and a large portion of grain supplies originally destined for the U.S.S.R. has found other foreign markets. More specifically, China, Brazil, Yugoslavia and Egypt have already purchased large amounts of wheat. In addition, the government plans increased pur-

(continued)

SELECTED FEDERAL RESERVE DATA

(Weekly Averages of Daily Figures – Millions of Dollars)

	Week Ending 1/23/80	Change Since Week Ago	Change Since Year Ago
Reserve Bank Credit:			
U.S. Gov'ts and Agencies Owned Outright & RPs	126,176	— 753	+13,562
Member Bank Borrowings	1,197	— 29	+ 273
Float	5,286	— 849	— 4,573
Total Reserve Bank Credit	138,077	—1,536	+10,331
Treasury Deposits with Federal Reserve Banks	3,073	— 208	— 347
Currency Outside Banks	109,571	— 288	+ 9,303
Member Bank Reserves:			
Required	45,082	— 906	+ 2,091
Excess (Deficiency)	202	— 349	+ 197
Total Reserves Held	45,284	—1,255	+ 2,288
Net Borrowed Reserves	917	+ 316	+ 103
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	80,192	+ 766	—15,602
		r-Revised	
	1/16/80		
Money Supply ($ Bil., SA) M1	383.6	+ 1.0	+6.0%
Money Supply ($ Bil., SA) M2	958.1	+ 2.5	+8.6%

NEW YORK MONEY MARKET

Offering Rates 1/25/80	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	12.26%	12.00%	11.20%
*Federal Agencies	12.90	12.62	12.11
*Project Notes—Tax Free (46% Taxable Equivalent)	NA	10.83	10.74
Negotiable Time CDs . Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	13.60	13.80	

‡Finance Company Paper—Prime		‡*Bankers' Acceptances	
5- 14 days	12.00%	Feb.	13.00%
15- 29 days	12.75	Mar.	13.05
30- 59 days	13.00	Apr.	13.10
60- 89 days	13.00	May	12.95
90-179 days	12.00	June	12.80
180-270 days	11.50	July	12.60

‡Industrial Paper—Prime		†Federal Funds
30- 89 days	13.00%	Effective Rate 13.95%
90-120 days	12.95	

‡Discount Basis. *Subject to Availability. †Estimated.

SELECTED BUSINESS INDICATORS

(All Dollar Figures in Billions)

	Latest Period or End of Period	Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'79 $ 2,456	$ 2,397	$ 2,235
Gross National Product (1972 Dollars)*	4th Q'79 $ 1,438	$ 1,433	$ 1,427
Percent Change, Annual Rate	4th Q'79 1.4%	3.1%	5.6%
Change in Consumer Prices (all urban consumers)*	Dec. '79n 14.4%	12.0%	8.0%
Change in Producer Prices*	Dec. '79 9.6%	15.5%	12.0%
Civilian Employment (Thousands of Persons)†	Dec. '79 97,912	97,608	95,831
Unemployment as % of Civilian Labor Force†	Dec. '79 5.9%	5.8%	5.9%
Personal Income*	Dec. '79 $ 2,023	$ 2,000	$ 1,827
Leading Indicators Composite Index (1967=100)†	Nov. '79 136.6	138.4	142.8
Industrial Production Index (1967=100)†	Dec. '79 152.2	151.8	151.8
Net Change in Consumer Instalment Credit†	Nov. '79 $ 2.41	$ 2.19	$ 3.83
U.S. Merchandise Trade Balance†	Nov. '79 —$ 1.42	—$ 2.02	—$ 1.37
Plant and Equipment Expenditures*	1st Q'80 $189.32(a)	$179.56	$165.94
Private Housing Starts (Thousands of Units)*	Dec. '79 $ 1,527	$ 1,522	$ 2,074
New Construction Expenditures*	Nov. '79 $ 235.3	$ 238.5	$ 220.0
Total Business Inventories†	Nov. '79 $ 424.2	$ 421.2	$ 376.8
Total Business Sales†	Nov. '79 $ 299.2	$ 299.1	$ 269.8

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. a-Anticipated.

SHORT TERM PAPER OUTSTANDING
(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Negotiable Time CDs Weekly Reporting Banks			
Nationwide (1/16/80)	92,022	— 244	— 4,462
New York City (1/23/80)	19,866	— 185	—10,247
Commercial Paper (1/16/80)	115,490	+ 57	+29,551

BANK LOANS
(Millions of Dollars)

Weekly Reporting Large Commercial Banks	Commercial and Industrial Loans Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/16/80)	157,235	— 419	+25,339
New York City (1/23/80)	46,995	— 268	+ 8,597

	Total Loans Gross Adjusted Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (1/16/80)	398,940	+ 518	+56,831
New York City (1/23/80)	87,837	—2,595	+12,621

SECURITY MARKETS

	Friday 1/25/80	Change Since Week Ago	Change Since Year Ago
U. S. Governments, Closing Bid Prices:			
90-Day Bills (Discount Basis)	12.30%	+ .23	+ 2.96
180-Day Bills (Discount Basis)	11.99	+ .09	+ 2.64
Longest Bills (Discount Basis)	11.19	+ .22	+ 1.85
11½s 1/31/82 W.I.	99.13	NA	
10½s 12/31/83	98.7	— 28/32	
10¾s 11/15/89	99.73	—1-17/32	
10½s 2/15/95	95.22	—2- 2/32	
10⅜s 11/15/09	94.22	—3- 6/32	
Municipals:			
Bond Buyer—20 Bond Index* (1/24/80)	7.33%	+ .05	+ 1.03
Blue List Total ($ Million)	$ 830	+$ 45	+$ 239
30-Day Visible Supply ($ Million)	$1,283	—$ 149	+$ 431
Total	$2,118	—$ 104	+$ 670
Corporates:			
Moody's Aa Composite (1/24/80)	11.70%	+ .17	+ 2.24
Money Mgr.—30-Day Supply ($ Million)	$1,656	—$ 301	+$ 213
Stocks:			
Dow-Jones Averages			
Industrials	876.11	+ 8.96	+ 16.36
Transportation	275.66	+ 11.98	+ 56.92
Utilities	107.58	— 0.37	+ 3.52
65 Stocks	313.84	+ 5.59	+ 24.18
Standard and Poor's 500 Stocks	113.61	+ 2.54	+ 11.75
N.Y.S.E. Composite Index	65.27	+ 1.33	+ 8.28
N.Y.S.E. Avg. Daily Vol. for Week (000's)	51,146	— 3,746	+20,738

*46% Taxable Equivalent 13.57%

INTERNATIONAL RATES

	Friday 1/25/80	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	13.88%	13.75%
1 month	14.19	14.06
3 months	14.50	14.19
6 months	14.58	14.19
1 year	14.00	13.13
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	12.25%	11.85%
Long Term (10 to 15 yrs.)	12.50	11.95
FOREIGN EXCHANGE SPOT RATES New York Opening (in dollars)		
Belgium	.03553	.03566
Canada	.8634	.8637
France	.2465	.2475
Germany	.5776	.5796
Italy	.001240	.001242
Japan	.004178	.004174
Mexico	.04382	.04382
Netherlands	.5232	.5256
Switzerland	.6218	.6267
U.K.	2.2760	2.2810

chases for its stepped-up Food for Peace program. Significant new export markets for corn have not developed, however, prompting the Department of Agriculture to reduce its 1980 projection of corn exports by nine million tons. Despite the embargo, the volume of total U.S. grain exports is still forecast to advance by seven percent this year. Clearly, the impact of the embargo on our balance of trade will be significantly smaller than originally anticipated. (It is interesting to note that agricultural trade is the largest positive contributor to our balance on trade.)

Budget and interest rates: On January 7, three days following the embargo, the federal government announced that, through its financial arm, the Commodity Credit Corporation, it will purchase unsold crops originally scheduled for delivery to the Soviet Union. Furthermore, the CCC will provide additional financial assistance to farmers including higher support prices and elimination of certain interest payments, it will extend further incentives to stimulate production of ethyl alcohol (for use in gasohol) and will expand the foreign food-aid program. These are estimated to cost the government around $2.5 billion. Although these measures will widen the federal budget deficit (by as much as five percent), the impact on interest rates should be minimal, considering its relatively small size compared with total funds raised in financial markets.

Energy: Another measure dealing with the disposal of surplus corn is the proposal to commit it to the production of gasohol. This option would isolate the grains purchased by the CCC until additional ethanol production facilities are available. Currently only about two percent of U.S. gas stations sell gasohol, but various tax credits and subsidies available to gasohol producers are becoming increasingly attractive to liquor and oil companies that should prompt them to build more alcohol distilling plants in the near future. This policy would not only maintain farm incomes and grain prices near pre-embargo levels—it would facilitate achieving the President's target of producing 500 million gallons of grain alcohol by the end of 1981, thus meeting 1.2 percent of anticipated unleaded gasoline demand.

Prices: Prices of both wheat and corn fell sharply immediately following the announcement of the embargo. Since then, wheat prices have recovered, responding to strong export demand, as discussed above. Corn prices, however, are still about 10 cents per bushel lower than they were prior to January 4. Depressed grain prices may eventually cause meat prices to drop, since they provide an incentive for cattle and hog producers to expand their stocks. Downward pressures on beef and pork prices should develop by 1981 as meat supplies increase over and above the increase in beef supplies that were expected, based on the established cattle cycle.

Farm income: To minimize economic damage to farmers, the government raised the support price of grains to levels prevailing before the embargo and expanded the set-aside program. The first measure protects the farmer from falling prices. The second measure, where farmers are paid to leave their grain acreage idle, will reduce future supplies of corn. Since the current excess inventory represents 30 percent of our total needs, corn acreage will be reduced by five million acres next year, in sharp contrast to an originally planned expansion of up to four million acres. Although it appears that farmers will be protected from serious losses this year, the longer term outlook is uncertain. In view of the previously expected continued high demand for grains by the Soviet Union in 1980 and beyond, farmers were looking forward to higher prices along with an increase in production. Now, with planned acreage cut and prices not expected to climb, farm income may well decline.

In sum, preliminary analysis shows that in the near term, the federal government will effectively offset much of the domestic disruption resulting from the Soviet grain embargo. Longer term, the view is uncertain, however, as the full impact will be dependent on our relationship with the Soviet Union, purchases of excess grain by other foreign countries, and the disclosure of precise government measures designed to offset adverse consequences of reduced grain exports.

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